Infrastructure Financing: Unlocking Private Sector Participation

India's infrastructure story is, at its heart, a financing story. Every highway kilometre laid, every port berth built, and every megawatt of renewable capacity commissioned is preceded by a far less visible but equally consequential exercise: arranging the capital to pay for it. As India moves toward its ambition of becoming a developed economy by 2047, the question of *how* infrastructure gets funded is proving just as decisive as *what* gets built. For PHDCCI, which has long championed policy reform that de-risks capital formation for industry, infrastructure financing sits at the very centre of the competitiveness agenda - and unlocking deeper private sector participation is the single biggest lever available to policymakers today.

The Scale of India's Infrastructure Ambition

India's infrastructure financing needs are staggering by any global comparison. India needs to spend about US$1.4 trillion on infrastructure to reach the target GDP of US$5 trillion. The government's flagship National Infrastructure Pipeline (NIP), first unveiled in 2019, identified an investment requirement of ₹111 lakh crore (roughly US$1.4 trillion) over the five years from 2020 to 2025 to build world-class economic and social infrastructure. By March 2025, the ambition had scaled up considerably: the NIP covered 13,000 projects with a total cost of ₹185 trillion, compared to more than 6,800 projects worth ₹111 trillion when it was launched, and its sectoral coverage expanded from 57 to 79 sub-sectors in just one year.

Looking further out, InvITs alone are expected to be critical in financing India's roughly ₹191.5 lakh crore (US$2.2 trillion) infrastructure requirement by 2030, spanning roads, renewable energy, logistics, telecom and urban transport. These are not abstract planning numbers - they represent the physical backbone of India's manufacturing competitiveness, urban liveability, and export ambitions, all themes close to PHDCCI's own advocacy for ease of doing business and industrial corridor development.

Why Public Capital Alone Cannot Do the Job

Historically, India's infrastructure build-out has been overwhelmingly government-funded. During fiscals 2018 and 2019, infrastructure investment was predominantly made by the public sector - Centre and state governments together accounted for roughly 70% of the funding, while the private sector's share was only about 30%. Even under the ambitious NIP framework, the imbalance persists: private sector participation remains limited, with a share of less than 1% of NIP projects, and roughly 99% of projects are executed by government entities, while **Public-Private Partnerships** (PPPs) account for only about 11% of the pipeline.

This is the crux of the infrastructure financing challenge. Government balance sheets, however committed, cannot single-handedly fund a multi-trillion-dollar pipeline while also managing fiscal deficit targets, welfare spending and debt sustainability. Private capital - whether in the form of equity from developers, institutional debt, pension and insurance funds, or increasingly, retail investment through listed vehicles - has to do more of the heavy lifting. This is precisely why unlocking private sector participation has moved from being a policy preference to a fiscal necessity.

The Toolkit: How India Is Trying to Crowd In Private Capital

1. Public-Private Partnerships and Viability Gap Funding

PPPs remain the primary structural route for private participation in Indian infrastructure. Private investment in infrastructure has come mainly through PPPs, which help address the infrastructure gap and improve efficiency in service delivery, supported by frameworks such as the Viability Gap Funding scheme and Model Concession Agreements. The VGF scheme - administered by the Department of Economic Affairs - exists precisely because many economically desirable infrastructure projects are not, on their own, commercially bankable.

The Cabinet Committee on **Economic Affairs** approved a continuation and revamping of the VGF scheme with a total outlay of ₹8,100 crore, introducing two sub-schemes to mainstream private participation in social infrastructure such as water supply, sanitation, healthcare and education - sectors that face bankability issues and poor revenue streams relative to their capital costs. Under the revamped scheme, social sector projects can receive VGF support of up to 60% of total project cost, with a maximum of 30% each from the Central and State governments. This blended-finance approach - de-risking commercially unviable but socially essential projects - is exactly the kind of mechanism PHDCCI has consistently urged

government to expand, particularly for tier-2 and tier-3 city infrastructure where user-charge revenues are inherently limited.

Real-world examples underline the model's relevance: the Varanasi Ropeway project was funded by VGF with 20% support each from the Centre and state, while Tata Group's Dholera semiconductor project in Gujarat received VGF support covering 50% of its ₹91,000 crore cost, illustrating how the instrument is being extended well beyond traditional roads-and-ports use cases into strategic and social infrastructure alike.

2. Asset Monetisation and Infrastructure Investment Trusts (InvITs)

If VGF is about de-risking new projects, asset monetisation is about recycling capital locked in *existing* infrastructure. The National Monetisation Pipeline (NMP), launched to complement the NIP, mobilised ₹5.3 lakh crore between fiscal 2022 and fiscal 2025, achieving 89% of its aggregate target. Building on this, NMP 2.0 was announced in the Union Budget 2025-26, covering a five-year period through FY2029-30 with a significantly higher estimated value of ₹10 lakh crore in new projects, with highways as the single largest sectoral allocation at ₹4.14 lakh crore, of which ₹3.35 lakh crore is earmarked for monetisation through InvIT and Toll-Operate-Transfer structures covering 19,200 km of road assets.

InvITs - SEBI-regulated vehicles that convert steady infrastructure cash flows into tradeable investment units - have emerged as the standout success story of India's infrastructure financing reforms. Cumulative funds mobilised through InvITs across all sectors grew at a 65% CAGR, from ₹0.11 lakh crore in fiscal 2020 to ₹1.38 lakh crore in fiscal 2025. Road InvITs in particular have been the fastest-growing segment, with assets under management expanding at a 42% CAGR from ₹0.60 lakh crore in fiscal 2021 to ₹2.46 lakh crore in fiscal 2025, rising from 18.5% to 39% of total InvIT AUM over the period. The fiscal payoff has been tangible too: asset monetisation enabled NHAI to facilitate ₹72,000 crore of debt repayment between fiscal 2023 and fiscal 2025, on top of ₹1.4 lakh crore monetised since 2020.

Yet the headroom for growth remains vast. Only around 15,700 km of India's 3.25 lakh km national and state highway network has been brought under InvIT structures - a penetration of just 4.8%. Industry voices reinforce this optimism: FICCI's Committee on Roads and Highways has noted that road InvITs allow monetisation of operational assets and recycling of capital into new projects, while giving institutional investors access to stable, long-term infrastructure returns. Market estimates project the combined InvIT-REIT universe could nearly triple by the end of the decade, cementing these instruments as a mainstream infrastructure financing channel rather than a niche one.

3. Development Finance Institutions and Long-Tenor Debt

Beyond equity-style vehicles, India has also moved to plug the long-tenor debt gap that has historically discouraged private lenders - commercial banks are naturally reluctant to fund 20-30 year infrastructure assets with shorter-duration deposits. The establishment of the National Bank for Financing Infrastructure and Development (NaBFID) and the deepening of the municipal bond market are steps toward creating dedicated, patient capital pools suited to infrastructure's unique risk-return and duration profile - an area where PHDCCI has repeatedly recommended strengthening credit enhancement mechanisms and partial risk guarantees to bring in insurance and pension fund capital at scale.

The Structural Barriers Still Holding Private Capital Back

Despite this expanding toolkit, several frictions continue to suppress private appetite:

- **Land acquisition and regulatory delays** remain the most cited reasons for cost and time overruns in Indian infrastructure projects, eroding project IRRs before construction even begins.
- **Revenue and demand risk**, particularly in social infrastructure such as urban water, sanitation and healthcare, where user-charge collection is politically and practically difficult.
- **Sector-specific bankability gaps** - the limited number of PPPs in social infrastructure is partly attributed to the lack of sector-specific Model Concession Agreements, leaving investors without standardised, bankable contract templates to rely on.
- **Uneven monetisation performance across ministries** - while the Ministry of Coal generated ₹1.54 trillion against a four-year goal of ₹80,000 crore, the Ministry of Railways managed only ₹20,417 crore in three years, reaching just 30% of its adjusted target, reflecting how execution capacity varies widely across the public sector.
- **Asset valuation and governance concerns**, which continue to make institutional investors cautious about brownfield transactions, particularly where long-term revenue assumptions are contested.

Policy Tailwinds: Why the Next Five Years Look Different

Several converging trends suggest the private capital logjam may finally be easing. Morgan Stanley projects India's infrastructure investment will rise from 5.3% of GDP in FY24 to 6.5% by FY29, and the government's Union Budget 2025-26 included continuation of a 50-year interest-free loan for states' capital expenditure, with an enhanced outlay of ₹1.5 lakh crore - a mechanism that indirectly crowds in private co-financing by strengthening state-level project preparation capacity. India is now the fourth-largest REIT and InvIT market in Asia, with five REITs and 17 InvITs listed on exchanges together valued at roughly ₹2.89 lakh crore, a clear signal that capital markets are becoming a credible, scalable complement to traditional bank and government financing.

The PM Gati Shakti National Master Plan adds another layer of confidence for private investors by de-risking planning uncertainty: by October 2024, it had onboarded 44 central ministries and 36 states/UTs, integrated 1,614 data layers, and assessed 208 major projects worth ₹15,39,000 crore. For private developers and financiers, this kind of integrated, transparent project pipeline reduces exactly the kind of planning and inter-agency risk that has historically deterred long-term capital commitments.

PHDCCI's Recommendations for Deepening Private Participation

Drawing on industry consultations, PHDCCI believes four priorities can meaningfully unlock further private capital into Indian infrastructure:

1. **Standardise Model Concession Agreements** across social infrastructure sub-sectors - health, education, urban water and sanitation - to reduce transaction costs and bidding uncertainty for private developers.
2. **Deepen the municipal bond and credit-enhancement ecosystem**, enabling urban local bodies to access long-tenor private debt directly rather than relying solely on state and central transfers.
3. **Widen VGF and blended-finance instruments** to emerging priority sectors such as battery energy storage, green hydrogen infrastructure, and semiconductor-linked utilities, where early-stage bankability gaps mirror those once seen in renewable energy.
4. **Accelerate InvIT and REIT penetration** in under-tapped asset classes - logistics parks, airports, and urban transit - where monetisation levels remain far below the roads and power sectors.

Conclusion

Infrastructure financing is no longer simply about how much capital India can mobilise - it is about how intelligently that capital can be structured, shared and de-risked between the public exchequer and private markets. The instruments already exist: PPPs, Viability Gap Funding, InvITs, asset monetisation and emerging development finance institutions. What remains is disciplined execution, contractual standardisation, and sustained policy consistency. For India's chambers of commerce, industry bodies and private investors alike, the opportunity is unambiguous - infrastructure financing reform is not a peripheral policy conversation, but the central determinant of whether India's next decade of growth is built on time, on budget, and at scale.

https://www.phdcci.in/blog/pm-gati-shakti-and-indias-infrastructure-transformation/